



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 20th day of January, 1998

SERVED JAN. 26 , 1998

Essential Air Service at

EPHRATA/MOSES LAKE, WASHINGTON

under 49 U.S.C. 41731, *et seq.*

**DOCKET OST-98-3344
(41541)**

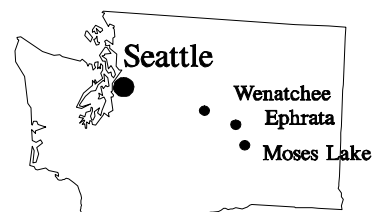
**ORDER TENTATIVELY SELECTING CARRIER
AND SETTING SUBSIDY RATE**

Summary

By this order, the Department is tentatively selecting Horizon Air Industries, Inc. (Horizon), to provide essential air service at Ephrata/Moses Lake, Washington, for a two-year period, at an annual subsidy of \$219,483.

Background

By Order 96-2-31, February 16, 1996, the Department selected Horizon, an Alaska Airlines code-share partner, to provide essential air service at Ephrata/Moses Lake, Washington. Horizon was to provide service to Seattle consisting of ten nonstop round trips per week with 18-seat Metro III aircraft, at an annual subsidy rate of \$177,628. In the Fall of 1997, Horizon ended operations with the Metro III aircraft and switched to a 37-seat deHavilland Dash 8 aircraft with no increase in subsidy. The carrier's rate term expired December 27, 1997.¹



Washington

As is our normal custom when nearing the end of a carrier's rate term, we contact the carrier to determine whether it is interested in continuing service at the community and whether it will continue to require subsidy. If the carrier wishes to continue service with subsidy, we usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting the carrier for a new two-year rate term at the agreed rate, and direct other

¹ By Order 97-8-14, August 14, 1997, the Department authorized payment for additional essential air service , up to a maximum of 12 weekly round trips, program-wide, to be paid at the subsidy rates per departure that were currently in effect.

parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to do so in response to the show-cause order. If any such proposals are filed, we process them as a competitive case. Consistent with this practice, we invited Horizon to submit a proposal for continuation of essential air service at Ephrata/Moses Lake.

Carrier Proposal

Horizon submitted a proposal to provide essential air service at Ephrata/Moses Lake for a new two-year rate term. The carrier proposes to provide the community with two one-stop (at Wenatchee) round trips to Seattle each weekday and over each weekend period, with 37-seat deHavilland Dash 8 aircraft. Horizon has agreed to an annual subsidy of \$219,483 for this service, a small increase over its previous rate, but with a much larger aircraft.

Tentative Reselection

Horizon continues to provide Ephrata/Moses Lake with reliable essential air service and, in fact, has historically provided service at a level above that which is subsidized. The amount of subsidy that the carrier is requesting for this service appears reasonable, especially in view of the fact that it is now operating the 37-seat aircraft. In view of the above, we will tentatively reselect Horizon to provide two one-stop round trips to Seattle each weekday and each weekend period, for an additional two-year period beginning December 28, 1997, and ending December 31, 1999. As set forth in Appendix B, service is to be provided with 37-seat deHavilland Dash 8 aircraft at an annual subsidy of \$219,483.

Responses to Tentative Decision and Competing Proposals

We will give interested persons 20 days from the date of service of this order to show cause why we should not make final our tentative decision to reselect Horizon to provide essential air service at Ephrata/Moses Lake, at the service and subsidy level discussed above. We expect persons objecting to our tentative decision to support their objections with relevant and material facts. We will not entertain general, vague or unsupported objections.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. At the end of that period, our staff will docket any competing proposals, thereby making them public, and direct each applicant to serve a copy of its proposal on the civic parties and other applicants. We will give full consideration to all proposals that are timely filed.

Competing proposals may contemplate service to Seattle or Portland, or any other appropriate hub city. Service should consist of at least three round trips each service day to the hub with 15- to 19-seat aircraft, or two round trips a day if provided with larger aircraft. In order to help carriers in their passenger forecast, historical traffic data have been included in Appendix A.

Procedures for Filing Replacement Proposals

For interested carriers unfamiliar with our procedures and recommended form for supplying the necessary information, we have prepared two explanatory documents that we will make available upon request. The first describes the process for handling carrier replacement cases under 49 U.S.C. 41734(f), and discusses in detail the process of requesting proposals, conducting reviews of applicants, and selecting a replacement carrier. The second is an evidence request containing an explanatory statement, a copy of Part 204 of our regulations (14 CFR 204), and schedules setting forth our recommended form for submitting data required for calculating compensation and determining the financial and operational ability of applicants to provide reliable essential air service. (Section 204.4 describes the fitness information required of all applicants for authority to provide essential air service.) Applicant carriers that have already submitted this information in another case need only resubmit it if a substantial change has occurred. However, if there are more recent data or if there have been any changes to the information on file, carriers should provide updates of those information elements. Interested carriers that need to obtain copies of these documents may contact the Office of Aviation Analysis at (202) 366-1053.

Other Carrier Requirements

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.² Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with the regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals. Interested carriers requiring more detailed information regarding these requirements as well as copies of the certifications should contact the Office of Aviation Analysis at (202) 366-1053. The Department is prohibited from paying subsidy to carriers that do not submit these documents.

² The regulations applicable to each of these three areas are (1) 49 CFR Part 20, New Restrictions of Lobbying, implementing title 31, United States Code, section 1352, entitled "Limitation on use of appropriated funds to influence certain Federal contracting and financial transactions"; (2) 49 CFR Part 29, Subpart F, Drug-Free Workplace Requirements (Grants), implementing the Drug-Free Workplace Act of 1988; and (3) 49 CFR Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation -- Effectuation of Title VI of the Civil Rights Act of 1964; 49 CFR Part 27, Nondiscrimination on the Basis of Handicap in Programs and Activities Receiving or Benefiting from Federal Financial Assistance; and 14 CFR Part 382, Nondiscrimination on the Basis of Handicap in Air Travel.

Community and State Comments

If we receive competing proposals, the community and state are welcome to submit comments on the proposals at any time. Early in the proceeding, comments on the proposals' strengths and weaknesses would be particularly helpful, and the civic parties may also express a preference for a particular carrier, if they choose. In any event, after conducting rate conferences with all applicants, we will provide a summary of the conference results to the civic parties and ask them to file their final comments.³

Carrier Fitness

49 U.S.C. 41738 requires that we find an air carrier fit, willing and able to provide service before we may compensate it for essential air service. Horizon is a certificated air carrier and has operated successfully for a number of years. It is a subsidiary of Alaska Air Group, Inc., which also owns Alaska Airlines. We last reviewed the fitness of Horizon when we selected it to provide essential air service at Ephrata/Moses Lake in Order 96-2-31. Horizon remains subject to the Department's continuing fitness monitoring. No information has come to our attention that would lead us to conclude that Horizon does not continue to be fit. The Federal Aviation Administration states that it knows of no reason to question Horizon's fitness. We therefore conclude that the carrier remains fit to conduct the operations proposed here.

This order is issued under authority delegated in 49 CFR 1.56(i).

ACCORDINGLY,

1. We tentatively reselect Horizon Air Industries, Inc., to provide essential air service at Ephrata/Moses Lake, Washington, as described in Appendix B, for the period beginning December 28, 1997, through December 31, 1999;
2. We tentatively set the final rate of compensation for Horizon Air Industries, Inc., for the provision of essential air service at Ephrata/Moses Lake, Washington, as described in Appendix B, for the period from December 28, 1997, through December 31, 1999, payable as follows: for each month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix B, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by \$178.88;⁴
3. We direct Horizon Air Industries, Inc., to retain all books, records, and other source and summary documentation to support claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be

³ In cases where a carrier proposes to provide essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not normally hold rate conferences. Instead, we rely on the carrier's subsidy-free service as proposed.

⁴ See Appendix C for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

4. We find that Horizon Air Industries, Inc., continues to be fit, willing and able to operate as a certificated air carrier and capable of providing essential air service at Ephrata/Moses Lake, Washington;
5. We direct Horizon Air Industries, Inc., and any other interested persons having objections to the selection of Horizon Air Industries, Inc., to provide essential air service as described in ordering paragraph 1 above, at the rate set forth in ordering paragraph 2 above, to file such objections or competing service proposals no later than 20 days from the date of service of this order;⁵
6. If we receive objections or competing proposals within the 20-day period, Horizon Air Industries, Inc., will be compensated at the subsidy rate set forth in ordering paragraph 2 above as a final rate, effective December 28, 1997, until all objections are resolved;
7. We will afford full consideration to the matters and issues raised in any timely and properly filed objections and service proposals before we take further action.⁶ If no objections or competing service proposals are filed, all further procedural steps will be deemed waived and this order shall become effective on the twenty-first day after its service date;
8. Docket OST-98-3344 shall remain open until further order of the Department; and

⁵ Objections should be filed with the Documentary Services Division, SVC-121.30, Room PL401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Proposals to provide essential air service should be filed with the Chief, EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, at the same address. Questions regarding filings in response to this order may be directed to Dennis J. DeVany at (202) 366-1061.

⁶ Since we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.

9. We will serve copies of this order on the Mayors of Ephrata and Moses Lake, the manager of Grant County Airport, the Washington State Department of Transportation, Aeronautics Division; the Governor of Washington; Horizon Air Industries, Inc., and the parties listed in Appendix D.

By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)

**HORIZON AIR INDUSTRIES, INC.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
EPHRATA/MOSES LAKE, WASHINGTON**

<u>Effective Period:</u>	December 28, 1997, through December 31, 1999
<u>Service:</u>	Two one-stop round trips each weekday and over each weekend period to Seattle
<u>Aircraft:</u>	deHavilland Dash 8 (37 passenger seats)
<u>Timing of Flights:</u>	Flights must be well-timed and well-spaced to ensure full compensation.
<u>Subsidy Rate:</u>	Per year - \$219,483 Per arrival from or departure to Seattle - \$178.88 ¹
<u>Weekly Compensation Ceiling:</u>	\$4,293.12 ²

¹ Annual compensation of \$219,483, divided by the number of arrivals and departures estimated to be performed annually (1,227), calculated by multiplying 4 arrivals and departures each service day by 313 annual service days--counting each weekend as one service day--and multiplying further by 98 percent completion.

² The subsidy rate for each arrival/departure (\$178.88) multiplied by the number of scheduled subsidy-eligible flights per week (24).

APPENDIX B

Page 2 of 2

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

Appendix A

Historical Enplanements Ephrata/Moses Lake, Washington

	MWH-SEA	SEA-MWH	Total
1991	4,442	4,207	8,649
1992	4,722	4,602	9,324
1993	4,854	4,983	9,837
1994	7,116	7,100	14,216
1995	10,220	10,073	20,293
1996	10,029	10,320	20,349
1997	10,879	10,973	21,852

Source: RSPA Form 298-C, Schedule A-1

Round Trips MWH-SEA	2 per day
<u>REVENUE</u>	
# pax	12,000
fare	\$67.00
Pax Rev	\$804,000
Wenatchee Offset	(\$63,128)
Net Pax Rev	\$740,872
Freight (4 % pax rev.)	\$32,160
Total Rev	\$773,032
Block Hours	405
<u>EXPENSES</u>	
Direct Expenses	\$592,292
Indirect Expenses	\$352,960
Total Oper Costs	\$945,252
Profit @ 5%	\$47,263
Total Economic Costs	\$992,515
Compensation	\$219,483
Subsidy per Pax	\$18.29

<u>Direct Operating Expenses</u>		
Flying Ops.	(352.83/BH)	142,896.15
Fuel & Oil	(143.84/BH)	58,255.20
Maintenance	(568.87/BH)	230,392.35
Rent/Depn.	(396.91/BH)	160,748.55
Total Directs		592,292.25
<u>Indirect Operating Expenses</u>		
Sales & Mktg		85,200.00
G&A		44,550.00
Commissions		67,536.00
PAX Liab. Ins.		6,117.36
Advertising		5,000.00
Stations		144,557.00
Total Indirects		352,960.36
Total cost/BH		\$2,334
<u>RPM's</u>		1,704,000
<u>Stations</u>		
MWH		\$95,997
EAT		\$48,560
Total		\$144,557

	Min/flt	flt/day	
Skd Min/day	20	4	80
# days			313
Total skd mins			25040
Total skd hours			417.33

Completion	0.97
Block Hours Skd	417
Block Hours @ 97%	405
Departures	1,214
RPM's	1,704,000
ASM's	640,992
Load Factor	37.617
RPM's	12,000
MWH-SEA Pax	
MWH-SEA Miles	142
Total RPMs	1,704,000